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REGIONAL INVESTMENT PROMOTION: THE KYUSHU EXPERIENCE

Summary

Within the last decade, Japan's central government has given increasing emphasis to industrial development in areas of the country removed from its political center. The motivations for this drive are mixed, but ultimately they center on the need to diversify industry, retain local labor and encourage less-developed areas to contribute a greater share of Japan's economy.

This report reviews the progress made by the seven prefectures on Kyushu island in western Japan to stimulate industrial growth. One of the most aggressive regions in promoting domestic and foreign investment, its successes have been numerous, but the results have not yet met expectations. A number of factors, however, might enhance the drive to attract new investors and industries to the region.

The Setting

The island of Kyushu consists of seven prefectures* with a total population of about 13 million. Its major cities include the commercial center of Fukuoka with a population of 1.1 million, the industrial area of Kitakyushu and the picturesque, historical cities of Nagasaki, Kumamoto and Kagoshima.

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*For administrative purposes, Tokyo considers Okinawa to be part of the Kyushu region, bringing the total number of prefectures to eight. For this report, only the seven contiguous prefectures of the island itself will be examined.

Kyushu has been a cultural, economic and political force in Japan's history from early times. The thwarted invasions of the Mongols, which inspired the kamikaze myth, were launched toward present-day Fukuoka. Kyushu was Japan's sole source of outside contact with the Western world for two hundred years. Many of the leaders of the modern restoration emerged from the island and, just for good measure, the final serious threat to restored imperial rule originated in the Satsuma region of the island.

In the postwar era, however, Kyushu's importance to the nation's economy steadily waned. At one point the region contributed only a 5 percent share of the nation's gross national product with more than 10 percent of its population. The biggest blow came from worsening conditions in coal markets. Coal production was one of the region's few heavy industries, and as demand dropped, economic fortunes also declined. Similarly affected was the shipbuilding industry, hard pressed by poor sales and overseas competition.

With faltering employment opportunities, the region threatened to become a drain on Tokyo's resources. Birth rates remained constant, contributing to high infrastructure and social expenses. Typically, new members of the work force moved to large urban areas to seek employment. While industry was booming in those regions, such migration patterns were tolerable. But as cities became more crowded and slower growth limited recuitment of new workers, Kyushu, primarily an agricultural economy, was unable to absorb the excess labor. The potential for subsidies from the central government increased just at a time when fiscal policies increasingly emphasized budget restraint, smaller government and regional initiatives to handle local problems.

At the same time, the availability of land for industrial use in urban regions was beginning to dry up. Industrial development had created standing-room-only conditions in many districts, and concern over the environmental impact of industrial concentration was increasing. Overcrowding and speculation propelled prices for the remaining parcels of suitable land.

The Industrial Relocation Promotion Act, adopted by the Diet in 1972 in response to many of these problems, offered industry special incentives to locate plants in more remote regions. Although the legislation helped set the stage for diversification of industrial development in Japan, it was not completely successful under the sluggish growth conditions that then prevailed. Furthermore, the Japanese economic thrust was beginning to shift to high technology, knowledge-based industries from traditional "smokestack" industries.

Enter Technopolis

Pressed for ways to stimulate national growth and meet growing regional needs, Tokyo began considering alternatives to the economic policies that led to the rapid growth of the 1960s and early 1970s. The Ministry of International Trade and Industry (MITI) provided one alternative which has since been instituted in a limited fashion -- the Technopolis concept, designed to locate industries outside of urban areas. As outlined in MITI's "Vision of the 1980s," the original plan called for funding one technopolis, located in a

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region outside of the Tokyo area and designated solely for the purpose of attracting advanced, preferably non-polluting industries to stimulate regional development and growth. This would serve as a national model to be emulated by local governments. This plan proved difficult to institute, particularly as government budgets became tighter.

An alternative course was then adopted. Local governments could designate technopolis sites if they met specific goals, including availability of resources, transportation systems and certain services. Once the central government had approved the location, the area could begin offering potential investors special tax incentives for locating industries within the limits of the technopolis.

The Diet measure on technopolis policies specifically mandated minimum utilization of central government funds. No special government offices were created under the program; the concept, in principle, was for Tokyo to act as a backup for prefectural efforts. (In practice, the central government has exerted considerable influence on regional technopolis programs, but not always in an official capacity).

As the name suggests, one of the key policy and philosophical differences between the technopolis concept and the Industrial Relocation Act was the added emphasis on high technology development, reflecting the reduced reliance on traditional industries. A key element of the plan was to develop and link education, research and production facilities within the same area, creating self-contained technological cities. And the most important consideration was to keep people at home. Technopolis areas in Kyushu, for example, have been located in precisely the same areas that have accounted for the greatest population migration over the past 60 years.

Prefectural governments in the Kyushu area jumped at the technopolis plans. The proposals precipitated local spending drives to expand regional airports into international facilities capable of receiving wide-bodied jets; highway extensions to link major commercial centers; and an emphasis on promotion drives to attract investors from Japan and other countries, especially the United States. Of the 19 officially designated technopolis centers in Japan, six are located in Kyushu -- an indication of the prefectural governments' aggressiveness. Most of the technopolis-related expenditures, while motivated by central government policies, have been funded by local sources.

The Kyushu Sales Pitch

Kyushu boosters have marshalled an array of data and arguments to persuade companies to locate in their region. Productivity rates in Japan are high in a number of industries, and those rates are generally uniform throughout the country. Kyushu workers pride themselves on their diligence, while sometimes grumbling that their Tokyo-based counterparts have lost the drive that characterized Japanese labor for decades. A related point is the quality consciousness of Japanese workers and managers and Kyushu promoters again insist that their attention to quality exceeds national standards.

Over the last year, the island's production levels have increased about two percentage points above the national average, suggesting a reviving local economy. Aiding that trend is an inflation rate that is lower than the national average by about the same margin. Wage levels are also considerably less than those in Tokyo and other highly urban regions; a 1980 study indicated that Kyushu wages in manufacturing were only 75 percent of the average level in Tokyo. All thse factors, supporters insist, help create a favorable environment for domestic or foreign concerns considering expansion of their operations.

By investing directly in Kyushu, business and government leaders argue, direct access to regional and national markets is possible. The Kyushu market itself -- 13 million strong -- is often ignored, they claim, by many companies entering Japan, and could be a source of new sales for American firms willing to make the effort. Transportation facilities provide direct access to Tokyo sales regions as well. Finally, the proximity of Kyushu to the Asian mainland offers export possibilities to Southeast Asian countries for aggressive companies.

No one in Japan will argue that the country's distribution system is simple to understand. Regional officials admit that the system can be complicated for domestic firms, and formidable for foreign companies. They suggest that direct investment is one of the best ways to get around these problems. The special features of Kyushu, they say, mean that returns on investments can be higher than home operations, and even above their Japanese competitors.

Further, the importance of Kyushu is considerable in certain key areas. For example, although the shipbuilding industry has fallen on hard times, Kyushu still accounts for about one-fourth of total Japanese production. Heavy concentrations exist in other major industries, including chemicals and steel, offering prime investment or sales opportunities to U.S. companies.

Transportation facilities and the ease of air cargo are consistently emphasized in Kyushu promotions. Eighteen of Japan's 70 major airports are located on the island, including four international airports and six facilities that are designed to handle widebodied jets. Land prices are two-thirds lower than those in the Tokyo area. Educational standards are as high as national levels: there are 115 universities and colleges within the island's seven prefectures, of which 44 are technical colleges. Kyushu University, located in Fukuoka, ranks at least third in the nation in stature.

Many American observers and businessmen with experience in Japan agree with the points raised by their Kyushu counterparts. A significant aspect, experienced observers suggest, is that Japanese markets are structured so that entry into one area offers national potential. This applies, for example, to the telecommunications industry, with many American companies concentrating solely on the Tokyo market. Regional markets in advancing areas are being ignored, some feel, or given secondary emphasis when they should get at least equal billing.

It is also noted that a national reputation can be established more quickly in some cases by testing regional markets first. Completely successful

sales in one part of the country can improve opportunities in other areas. Furthermore, even when the target is a Toyko sale, it is wise to "touch base" with plant managers and other corporate officials in outlying areas, according to regional specialists. Local branches inevitably will be consulted at some point, making it incumbent upon the American firm to build support within a firm by reaching out to all its elements. "Companies . that neglect regional markets," one Kyushu hand says, "are doing themelves an injustice."

Promotional Campaigns

In order to spread the word on these and other perceived strengths, Kyushu business and government leaders, teamed with representatives of the national government, including the Japan Development Bank, toured the United States in 1983 to visit prospective investors. Tour organizers followed up their contacts by sending potential customers a newsletter published in English.

Officials involved in the tour said that it produced few firm offers, but reached a large group of potential investment candidates that knew little, if anything, about regional markets in Japan. The problem facing island-wide boosters is that when firm possibilities arise, prefectural interests and parochialism often prevail over broader concerns. "We have been trying to promote the idea of 'One Kyushu'," notes Yoshio Kawahara, a managing director for Kyushu Electric Power Company (KEPCO) and former government official. If Kyushu prefectures are expected to make greater contributions to overall national growth, he reasons, then they must cooperate to emphasize their collective strengths rather than compete with one another for foreign and domestic investors.

Despite local competition, officials do provide basic information to investors, listing industrial sites immediately available in a 200-page handbook financed by KEPCO. Descriptions for each site include data on size, access to transportation facilities, land and utility prices and contacts for additional information. So far, the handbook is available only in Japanese, but an English-language edition is planned for publication in the near future, again using private-sector finances.

Budget constraints have limited the extent of prefectural contacts with potential investors, leaving most of the campaign to the personal influence of local leaders and their own circle of contacts. The stature of certain officials, such as Mr. Kawahara, who served in the Japanese government for decades, helps his prefecture reach out to potentially interested parties. But other, less well-connected prefectures could be at a disadvantage in promoting their localities.

In terms of personal appeal and drive, no one stands out more than the governor of Oita prefecture, Morihiko Hiramatsu. A former career official in the Ministry of International Trade and Industry (MITI), Governor Hiramatsu has combined personal charm with dogged determination to bring impressive results to an area that was once known primarily for its hot springs resorts. Under his leadership, Oita has introduced investments from major Japanese and American companies, including TDK Electronics Co., Toshiba Corp., Materials Research Corp. (MRC), Sony Corp., NEC Corp. and Kyushu Matsushita Electric Co.

G.D. Searle & Co. is about to expand its operations to the prefecture and the governor claims he has other companies that are interested in locating there.

Oita has all the features mentioned earlier, but it is clearly the personal involvement of Gov. Hiramatsu that has made a difference in the prefecture's track record. The governor offers to assist potential investors in such areas as selecting suitable sites and arranging favorable land leases or investment incentives. He is said to have played a role in recruiting top managers for Texas Instruments Inc.'s Oita plant, a favor he duplicated for the New York-based MRC when it began its search for managers.

Mr. Hiramatsu insists that the personal chemistry between potential investors and recipients is so important that it demands direct involvement. In explaining why one American electronics company decided to locate in Oita, he said, "I spent several years at MITI in charge of electronics policies before becoming governor." The firm's president, he noted, "knew he could trust me; he knew that I understood the electronics industry."

Kyushu has few additional plans for advertising the area's virtues to foreign industrialists. Domestic customers can be contacted through normal business ties and channels, but reaching out to overseas companies -- a key element in the regional development strategy -- will be more difficult. Unlike individual U.S. states, prefectural governments are limited in their ability to establish overseas promotional offices. A major element contributing to the success of American states in attracting Japanese investors appears to be their presence in Tokyo: 26 states have representative offices in Japan and more may be on the way. Gov. Hiramatsu says he would like to have representative offices in the United States, "but we just don't have the budget." Furthermore, legal restrictions limit the prefectures' power to establish independent overseas offices. Kyushu does, however, have a representative based in the New York office of the Japan External Trade Organization (JETRO).

The Role of the Central Government

Broader policies have been plotted by the central government to foster regional development. As part of its program, MITI has generated an industrial site data base listing more than 2,200 locations. By completing a short form and submitting it to the agency, potential investors can identify areas of interest across the country. MITI also plays an active role in long- and short-term development planning, as in the technopolis scheme, as well as providing industrial relocation subsidies and administrative counseling to individual companies. Its services include keeping interested companies abreast of developments through its English-language publication, Industrial Development in Japan.

The Japan Development Bank also plays an important role in regional development through low-interest loans, which have benefited Kyushu prefectures more than once. The same terms are available to foreign and domestic firms alike. Between 1978 and 1982 there were 82 applications from foreign firms for Y53.3 billion ($22.2 million) in loans. MRC became the first totally foreign-owned venture to receive a JDB loan when it secured funds of Y200 million (just under $1 million) for its Kyushu facility. The JDB program has been expanded to offer special loans beginning in fiscal year 1984 to qualifying foreign firms.

Besides receiving preferential interest rates of about 7.9 percent, the JDB loans offer additional advantages to newcomers in Japanese markets. The funds are secured from private banks, offering companies the opportunity to begin establishing relations with credit organizations in the country, an important consideration for long-term survival in Japan.

Officials in Toyko insist that their role should be kept to a minimum -- in this case, support services. This has led to suspicions that Tokyo is directing development policies without actually having to pay for them with central government funds. A government official dispatched from MITI to Fukuoka prefectural offices says that "there is [illegible]lement of truth" in the complaints, but that current policies and tr[illegible]re in keeping with more fundamental changes in philosophy concerning the role of the central government. Tokyo should assist in the programs, he says, but efforts should remain at the regional level. The era of big government -- and correspondingly generous central subsidies -- is past, he concludes.

The Track Record

The results of these efforts have been mixed, but overall one receives a favorable impression. The most notable improvement, in keeping with the technopolis philosophy, has been in the semiconductor industry. Production in the Kyushu region has grown so rapidly that the area is now producing almost 40 percent of the semiconductor industry's total national output. Supporting industries have begun entering the area, encouraging local officials to refer to the region as "Silicon Island." Production in other industries has improved, but still lags far behind national averages in many categories. As a consequence, critics have charged that the promotional efforts have not been the success that some claim. The growth of the semiconductor industry, they contend, was a natural development sparked primarily by the entry of Texas Instruments rather than by public relations efforts. That other firms would follow TI's lead, they conclude, was a natural progression. Deficiencies in other industrial categories only underscore this point, they charge.

Supporters of the program nevertheless insist that the heavy emphasis on attracting outside investors is justified even if it produces only a few successes each year. With every plant and production line built in Kyushu, they emphasize, the chances of another catastrophic downturn such as the one following the demise of the coal industry lessens.

It is still too soon to determine if the development campaign has benefited Kyushu vis-a-vis other prefectures. It has certainly resulted in at least an improved image. Successes have been publicized more effectively than those in other prefectures and success has a habit of breeding success. Government officials in Tokyo and independent observers all agree on one thing, however: Kyushu has been the most aggressive suitor of domestic and foreign investors and will remain so for the foreseeable future.

The effects on the island's renowned natural beauty have been limited, although many residents in more populated areas have begun complaining vociferously of crowded streets. Growth has not yet stimulated inflationary trends in land or consumer prices. But the industrialization of Japan's hinterlands is beginning to show less desirable results in other respects. It

is possible that competition for labor, particularly in the booming semiconductor industry, has initiated wage wars that could ultimately affect their competitiveness. Qualified personnel may be more difficult to attract in the years to come. Five of Japan's six largest integrated circuit producers have located facilities in the region, leading to competition in the labor force. Even officials at the usually tight-lipped Texas Instruments facility suggest that it is becoming increasing difficult to recruit and retain qualified personnel. The situation is symbolized by TI's own loss of its plant manager to MRC, a case of executive poaching that is uncommon for a country which touts its lifetime employment system.

Some planners are concerned that there has been too much emphasis on electronics in the region and hope to attract other types of industries. Although it is doubtful that the semiconductor industry could become another coal or shipbuilding albatross, many regional planners hope to see more diversification as a hedge against undue reliance on a particular sector. "From my own personal viewpoint," says Shinjiro Nakanishi, director-general of the Fukuoka Bureau of International Trade and Industry, "I think we should at least try to bring in more front-end operations in the semiconductor industry."

Bilateral Impact and Implications

The emphasis on attracting investment into Japan may be a welcome development for American companies that hesitated to test markets there. Some critics have suggested, however, that the current drive is just another means of preventing American finished products from entering Japanese markets. Japan may not be able to resist opening its markets, they contend, but it can certainly minimize the negative impact on its own trade balances by encouraging domestic production, using local labor and management but foreign capital.

"That is totally wrong," declares one Foreign Ministry official responsible for overseeing international investment programs. Japan is painfully sensitive to current and projected bilateral imbalances, he states, and has singled out the United States for special treatment in trade and investment. Japanese purchases are not politically motivated, he insists ("NTT bought a Cray computer because it needed it"), but U.S. trade and investment has been given special priority in terms of reducing barriers and eliminating obstacles. If American companies try to manufacture or sell products and services appropriate to Japanese markets, he concludes, they can succeed, "but don't try to bring in 19-cubic-foot refrigerators or cars with the steering wheel on the wrong side."

Outlook

The regional development experience of Kyushu has been successful, but in a limited fashion. It has boldly offered alternatives to American businesses to enter Japanese markets by bypassing the usual Tokyo-Yokohama-Osaka bullet-train route and entering directly into potentially more receptive and more challenging regions. Potential for expansion into other Asian markets exists, but this appears to be a more long-term consideration. In the meantime, Gov. Hiramatsu and his colleagues will continue to promote "One Kyushu" as best they can, with or without overseas offices and despite or perhaps because of support from Tokyo.

Profile of Kyushu's Seven Prefectures

Prefecture	Population (millions)	Area (sq. miles)
Fukuoka	4.57	1,913
Saga	0.88	939
Oita	1.24	2,445
Nagasaki	1.60	1,586
Kumamoto	1.81	2,859
Miyazaki	1.17	2,986
Kagoshima	1.80	3,538

Sectoral Contributions to Kyushu Industrial Shipments, 1980

Category	Kyushu	National Average
Foodstuffs	18.8%	10.5%
Iron, steel	13.7	8.3
Chemicals	9.3	8.4
Non-metallic mineral products	7.9	3.9
Transportation equipment	5.7	11.6
Machinery	6.5	8.2
Electrical machinery	5.1	10.4
Lumber/lumber products	4.6	2.5
Metal products	4.3	5.0
Textiles/apparel	3.9	5.2
Other	20.2	26.0

For additional information concerning regional development and investment programs in Japan, contact:

Ministry of International
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Industry Location Guidance Division
Industrial Location and
Environmental Protection Bureau
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Tokyo 100 Japan
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Japan External Trade Organization
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2-2-5 Toranomon
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Japan Development Bank
International Department
Loan Division
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Information for specific prefectures can be obtained by contacting the following offices:

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Regional Development Section
Planning and Development Dept.
7-7 Higashikoen
Hakata-ku
Fukuoka 812 Japan

Saga prefecture:
Manufacturing and Mining Section
Commerce, Industry and Labor Dept.
1-59 Jonai, 1-chome
Saga 840 Japan

Nagasaki prefecture:
Industrial Location Section
Economic Dept.
2-13 Edomachi
Nagasaki 850 Japan

Kumamoto prefecture:
Industrial Investment and
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Commerce, Industry, Tourism
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18-1 Suizenji, 6-chome
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The views expressed in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.

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